

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM**

**AUDITED FINANCIAL STATEMENTS  
With Supplemental Information**

**June 30, 2005**

**JUNKERMIER, CLARK, CAMPANELLA, STEVENS, P.C.  
Certified Public Accountants and Business Advisors**

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the financial audit of the Montana University System Workers' Compensation Program for the fiscal year ended June 30, 2005.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, PC under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The University System officials' written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.

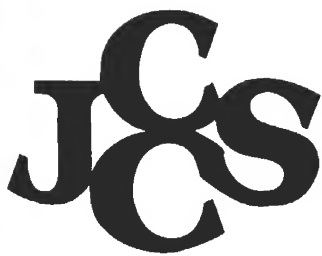
Scott A. Seacat  
Legislative Auditor

05C-06

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**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
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## INDEPENDENT AUDITORS' REPORT

To the Committee  
Montana University System -  
Workers' Compensation Program  
Missoula, Montana

We have audited the accompanying financial statements of the Montana University System - ( Workers' Compensation Program) (an enterprise fund of the State of Montana) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Montana University System - ( Workers' Compensation Program)'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Montana University System - ( Workers' Compensation Program) and do not purport to, and do not, present fairly the financial position of the State of Montana as of June 30, 2005, and the changes in its financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana University System - ( Workers' Compensation Program) (an enterprise fund of the State of Montana) as of June 30, 2005, and the changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of Montana University System - ( Workers' Compensation Program's) internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Montana University System - ( Workers' Compensation Program) has not presented the management's discussion and analysis as required supplementary information for financial statements prepared under the Governmental Accounting Standards Board Statement No. 34 that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The claims development information on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Helena, Montana  
September 1, 2005

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 2,426,134
Short-term investments	199,887
Interest receivable	9,625
Due from component units	290,664
Prepaid expense	<u>185,160</u>

Total current assets \$ 3,111,470

**Noncurrent Assets**

Long-term investments	1,354,740
Bond issuance costs net of accumulated amortization of \$18,470.	<u>27,705</u>

Total noncurrent assets 1,382,445

Total assets \$ 4,493,915

**LIABILITIES**

**Current Liabilities**

Other accrued expenses	13,500
Accrued bond interest payable	4,510
Current portion of revenue bonds payable	410,000
Current portion of estimated claims liability	<u>2,354,348</u>

Total current liabilities \$ 2,782,358

**Noncurrent Liabilities**

Estimated claims liability-net of current portion	783,747
Revenue bonds payable - net of current portion	<u>850,000</u>

Total noncurrent liabilities 1,633,747

Total liabilities \$ 4,416,105

**NET ASSETS**

Unrestricted Net Assets \$ 77,810

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

**OPERATING REVENUES**

Premiums	\$ 2,978,155
----------	--------------

**OPERATING EXPENSES**

Claims administration	125,251
Actuary fees	14,193
Administrator expense	55,042
Insurance and reinsurance expense	196,776
Audit fees	4,700
Dues	2,500
Department of Labor assessment	20,385
Claims paid and claims expense	<u>2,366,000</u>

Total operating expenses	<u>2,784,847</u>
--------------------------	------------------

**OPERATING INCOME**

193,308

**NONOPERATING REVENUES (EXPENSES)**

Interest and investment income	69,470
Amortization of bond issuance cost	(9,235)
Bond interest expense	(45,135)
Trustee fees	<u>(3,275)</u>

Total nonoperating revenues (expenses)	11,825
--	--------

**CHANGE IN NET ASSETS**

205,133

**NET ASSETS (DEFICIT) BEGINNING OF YEAR**

(127,323)

**NET ASSETS END OF YEAR**

\$ 77,810

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from premiums:	\$ 2,914,308
Claims paid and claims expense	(850,156)
Cash payments for insurance and reinsurance expense	(381,936)
Cash payments for administrative expenses	<u>(206,365)</u>

Net cash provided by operating activities \$ 1,475,851

**CASH FLOWS (USED) FROM NONCAPITAL FINANCING ACTIVITIES**

Cash paid for interest	(46,340)
Cash paid for trustee fees	(3,275)
Principal paid on bonds	<u>(395,000)</u>

Net cash (used) by noncapital financing activities (444,615)

**CASH FLOWS (USED) FROM INVESTING ACTIVITIES**

Proceeds from sale of investments	720,000
Purchase of investments	(459,541)
Interest received	<u>102,907</u>

Net cash from investing activities 363,366

Net increase in cash 1,394,602

**CASH BEGINNING OF YEAR** 1,031,532

**CASH END OF YEAR** \$ 2,426,134

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income \$ 193,308

Adjustments to reconcile operating income to net cash provided by operating activities:

Decrease in due from other funds	1,865
Decrease in due from component units	(65,712)
(Increase) in prepaid expense	(182,954)
Increase in other accrued expenses	13,500
Increase in estimated claims liability	1,515,844

1,282,543

Net cash provided by operating activities \$ 1,475,851

See the notes to financial statements.



**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2005**

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Decrease in fair value of investments	<u>\$ 7,786</u>
Amortization of bond issuance costs	<u>\$ 9,235</u>

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization and Description of Program:***

The Montana University System - Workers' Compensation Program (the Program) was organized to provide self-insured workers' compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers' compensation coverage under the Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers' compensation coverage through participation in the State Fund. Each member of the Program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

In order to fund an initial reserve for self-insured claims, the Montana University System issued \$2,050,000 Series 2003 Workers' Compensation Program Revenue Bonds. The Program is repaying the bonds as they become due.

***Administration of Claim Payments:***

The Program has contracted with Missoula County Workers' Compensation Group Insurance Authority for third party administrator services through June 30, 2006. Missoula County Workers' Compensation Group Insurance Authority has contracted with Intermountain Claims, Inc. to provide claim administration services.

***Basis of Accounting:***

The Program has adopted the provisions of GASB Statement 10 (as amended by GASB Statement No. 30 and GASB Interpretation No. 4), under those provisions, the Program utilizes accounting principles applicable to public entity risk pools. The Program's financial statements are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues and expenses generally arise from providing insurance coverage. All other revenues and expenses are classified as nonoperating. The Program has elected to apply the provisions of applicable pronouncements issued by the Financial Accounting Standards Board and the AICPA prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements. Government entities have the option of whether or not to apply FASB pronouncements issued after that date to their proprietary activities. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

***Reporting Entity:***

The Program is considered a public entity risk pool and is reported as an enterprise fund of the State of Montana. In accordance with governmental accounting and financial reporting standards there are no component units to be included with the Montana University System-Workers Compensation Program as a reporting agency.

***Bad Debts:***

The Program considers all premium receivables to be collectible.

***Investments:***

State law permits investment of Program funds in direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; or a repurchase agreement as authorized in the State of Montana Laws.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Investments (Continued):***

The Program also authorized investing in the Short Term Investment Pool (STIP) which is administered by the State of Montana Board of Investments. The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, and credit cards. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The variable-rate securities float with the 91 day treasury bill or LIBOR (London Interbank Offered Rate).

The Trust indenture for the Series 2003 Workers' Compensation Revenue Bonds requires that funds deposited into a bank-administered trust fund be invested in tax-exempt obligations.

Under the provisions of GASB Statement 31, investments have been reported at fair value.

Investments consist of municipal obligations carried at fair value, determined by quoted market prices. Increases or decreases in fair value are recognized in the current period as investment gains or losses. Short-term investments are those with a maturity date of greater than one year from the financial statement date.

***Restricted Cash and Investments:***

The trust indenture for the Series 2003 Workers' Compensation Revenue Bonds requires that each month program revenues be set aside in a debt service account to be used for the payment of interest and principal. The amount of restricted cash and cash equivalents at June 30, 2005 is \$541,372. The amount of restricted investments at June 30, 2005 is \$1,554,627.

***Estimates:***

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. The major estimates are unpaid claim liabilities.

***Unpaid Claims Liabilities:***

The Program establishes claim loss reserves for unpaid claims liabilities based on actuarial estimates of the ultimate cost of claims (including future allocated claim adjustment expenses) that have been reported but not paid or settled and that have been incurred but not reported. The liability includes the unallocated claims adjustment expense. The liabilities are based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current reviews of claims information, experience with similar claims and other factors. Adjustments to estimated claims liabilities are charged or credited to expense in the periods in which they are made.

The Program is self-insured for workers' compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During the fiscal year ended June 30, 2005, the Program ceded \$196,776 in premiums to reinsurers.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash and Cash Equivalents:***

Cash and cash equivalents consist of cash in checking accounts, specific investments held on behalf of the Program and pooled accounts with the University of Montana. For purposes of the statement of cash flows, the Program considers all highly liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

***Premium Revenue:***

Premium rates for all participating employees are based on rates established by the Montana University System Self-Funded Workers' Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The Program considers anticipated investment income in determining if a premium deficiency exists.

***Due from Component Unit:***

These amounts represent premium receivable from a component unit (Montana University System) of the State of Montana.

***Amortization of Bond Issuance Costs:***

Loan origination costs, which consist principally of underwriter's discount, legal and printing costs associated with the Series 2003 Bonds, are amortized using the straight-line method over the life of the bonds.

**2. CASH AND INVESTMENTS**

Cash and cash equivalents at June 30, 2005, consist of the following:

Cash in bank	\$ 331,821
Money market funds	467,509
Cash in University of Montana investment pool	<u>1,626,804</u>
Totals	<u>\$ 2,426,134</u>

The following table presents the cost and the fair value of investments at June 30, 2005

	<u>Cost</u>	<u>Fair Value</u>
Municipal obligations	<u>\$ 1,593,591</u>	<u>\$ 1,554,627</u>

Effective June 30, 2005, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 "Deposits and Investment Risk Disclosures". The investment risk disclosures are described in the following paragraphs.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk disclosure is accomplished by classifying debt investments as of June 30, 2005 by debt type and by credit ratings assigned by nationally recognized rating agencies such as Standard and Poors, Moody's Investors Service, and Fitch.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**2. CASH AND INVESTMENTS (Continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 requires that a government entity disclose the amount invested in a separate issuer (except investments held in the U.S. government or investments guaranteed by the U.S. government) when that amount is at least 5% of total investments. As of June 30, 2005, the Program had the following investments that made up more than 5% of the total investments of \$1,554,627:

	<u>Fair Value</u>	<u>Percentage of Investments</u>
Peters Township Sanitary Authority, Washington County, Pennsylvania, General Obligation Bonds, Series A 2003	\$ 99,886	6.43%
Nebo School District, Utah County, Utah, General Obligation Refunding Bonds, Series 1998B	101,356	6.52%
Clark County, Nevada, General Obligation Flood Control Bonds, Series 1998	102,326	6.58%
Metropolitan Park District of Tacoma, Pierce County, Washington, Limited Tax General Obligation Bonds, Series 2002A	199,978	12.86%
Wyoming Community Development Authority, Housing Revenue Bonds, Series 1 and 2, 2004	98,121	6.31%
Wyoming Community Development Authority, Housing Revenue Bonds, Series 1 and 2, 2004	146,075	9.4%
Douglas County, Nevada, General Obligation Refunding Bonds, Series 2003	249,917	16.08%
Public Hospital District No. 1 of King County, Washington, Hospital Facilities Revenue and Refunding Bonds, Series 1998	103,604	6.66%
Washington State CTFS Partn Equip Series C	100,001	6.43%
Snohomish County, Washington, General Obligation Bonds	250,975	16.14%
Paris Texas Water and Sewer Revenue and Refunding Bonds	102,388	6.59%

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of the outside party. Cash and money market funds are insured.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**2. CASH AND INVESTMENTS (Continued)**

The Program's short-term and long-term investments are held by a bank-administered trust fund. These investments are uninsured, unregistered, and held by the trustee in the Program's name, therefore classified as category 2 investments.

Information regarding the collateralization and risk of funds held by the University of Montana is available in the University's comprehensive annual financial report. There is no regulatory oversight for the University's investment pool, and the pool does not have a credit quality rating. Participants' equity in the pool approximates the fair value of the underlying investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Program has selected the effective duration method to disclose interest rate risk.

GASB Statement No. 40 defines duration as a measure of the debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

The Program's investments are categorized below to disclose credit and interest rate risk as of June 30, 2005. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2005. If a bond investment type is unrated, the quality type is indicated by a NR (not rated). Interest rate risk is disclosed using effective duration. Both the credit ratings and duration have been calculated excluding cash equivalents.

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Municipal bonds	\$ 250,975	AA	1.31
Municipal bonds	244,195	AA+	2.01
Municipal bonds	<u>1,059,457</u>	AAA	1.27
	<u>\$ 1,554,627</u>		

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**2. CASH AND INVESTMENTS (Continued)**

The following is a calculation of the increase (decrease) in the fair value of investments for the fiscal year ended June 30, 2005:

Fair value at June 30, 2005	\$ 1,554,627
Add: Proceeds of investments sold in fiscal year 2005	720,000
Less: Cost of investments purchased in fiscal year 2005	(459,541)
Less: Fair value at June 30, 2004	<u>(1,841,681)</u>
Change in fair value of investments	<u>\$ (26,595)</u>

**3. LONG-TERM DEBT**

On July 11, 2003, the Program issued \$2,050,000 of Series 2003 Workers' Compensation Program Revenue Bonds. The bonds were issued at par, bear interest of 2.8%, and are secured by premiums charged to participants within the Montana University System. Proceeds from the bonds were used to establish an initial reserve for self-insured claims.

Long-term debt as of June 30, 2005, consists of:

\$2,050,000 Series 2003 Workers' Compensation Program Revenue Bonds, 2.8% interest due semiannually, principal annually to May 2008; secured by premium revenue	\$ 1,260,000
Less current portion	<u>(410,000)</u>
	<u>\$ 850,000</u>

During the period ended June 30, 2005, \$45,135 of interest expense was recognized.

Debt service requirements to maturity on the revenue bonds at June 30, 2005, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 410,000	\$ 35,280	\$ 445,280
2007	420,000	23,800	443,800
2008	<u>430,000</u>	<u>12,040</u>	<u>442,040</u>
	<u>\$ 1,260,000</u>	<u>\$ 71,120</u>	<u>\$ 1,331,120</u>

**4. RELATED PARTIES**

Certain employees of the campuses of the university system provide services to the Program at no charge. The value of such services has not been determined.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2005 and 2004**

**5. UNPAID CLAIMS LIABILITIES**

As discussed in footnote 1, the Program establishes actuarial estimated unpaid claims liabilities. The estimated unpaid claims incurred but not reported and loss development liability have been adjusted to reflect the actuarial estimates of the ultimate cost of claims. The management of the Program has set the unpaid claims liability at the actuary's best estimate for 2005. The following represents changes in the aggregate unpaid claims liabilities, excluding unallocated claim adjustment expense, for the Authority for 2005:

Total present value of estimated unpaid claim losses at beginning of year	\$ 1,622,251
Changes in the estimated unpaid claim losses:	
Provision for insured events of the current year	2,366,000
Increase (decrease) in provision for insured events of prior years	<u>-</u>
Total incurred claims	<u>2,366,000</u>
Payments (including claims legal defense):	
Claims paid attributable to insured events of current year	382,154
Claims paid attributable to insured events of prior years	<u>468,002</u>
Total payments	<u>850,156</u>
Total present value of estimated unpaid claim losses at end of year	<u>\$ 3,138,095</u>

The estimated liability for workers' compensation claims as of June 30, 2005 consist of the following:

Estimated claims reported but unpaid	\$ 557,586
Estimated claims incurred but not reported and loss development	<u>2,580,509</u>
	<u>\$ 3,138,095</u>

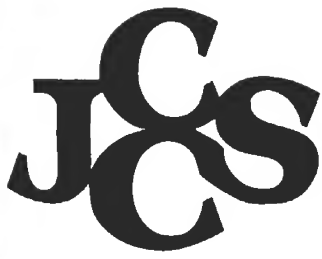


MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM  
CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended

	2004	2005
1. Required contribution and investment revenue		
Earned	\$ 2,425,230	\$ 3,047,625
Ceded	151,286	196,776
Net earned	2,273,944	2,850,849
2. Unallocated expenses	227,267	279,716
3. Estimated incurred claims and expenses, end of policy year		
Incurred	2,174,000	2,366,000
Ceded		
Net incurred	2,174,000	2,366,000
4. Net paid (cumulative) as of:		
End of policy year	551,749	382,154
One year later	1,019,751	
5. Reestimated ceded claims and expenses	-	-
6. Reestimated net incurred claims and expenses		
End of policy year	2,174,000	2,366,000
One year later	2,174,000	
7. Increase in estimated net incurred claims and expenses from end of policy year	-	-

See the accompanying independent autitors' report.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Committee  
Montana University System - Workers' Compensation Program  
Missoula, Montana

We have audited the financial statements of Montana University System - ( Workers' Compensation Program), (an enterprise fund of the State of Montana) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montana University System - ( Workers' Compensation Program's) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components, does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana University System - ( Workers' Compensation Program's) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of Montana University System - ( Workers' Compensation Program in a separate letter dated September 1, 2005.

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This report is intended solely for the information and use of the audit committee, management, others within the Montana University System - ( Workers' Compensation Program), and is not intended to be and should not be used by anyone other than these specified parties.

*Junkermier, Clark, Campanella, Stevens, P.C.*

Helena, Montana  
September 1, 2005



The University of  
**Montana**

Vice President, Administration and Finance  
The University of Montana  
Missoula, Montana 59812-3826

Phone: (406) 243-4662  
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November 4, 2005

Junkermier, Clark, Campanella, Stevens, P.C.  
Certified Public Accountants  
P.O. Box 1164  
Helena, Montana 59624

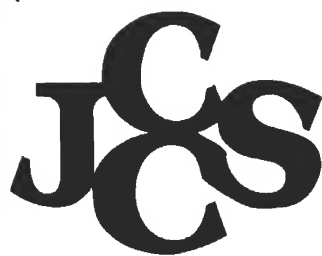
RE: Montana University System –Workers Compensation Program response

Dear Junkermier, Clark, Campanella, Stevens, P.C.

We have reviewed the draft audit report for the Montana University System –Workers Compensation Program. We are pleased that our Program meets accounting standards and that no recommendations for improvement were noted.

Sincerely,

Rosi Keller, Chair, Finance Committee  
Montana University System – Workers' Compensation Program



Junkermier • Clark  
Campanella • Stevens • P.C.

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September 1, 2005

To the Committee  
Montana University System –  
Workers' Compensation Program  
Missoula, Montana 59801

We have audited the financial statements of Montana University System – Workers' Compensation Program, for the year ended June 30, 2005 and have issued our report thereon September 1, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter July 21, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Montana University System - Workers' Compensation Program. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Montana University System - Workers' Compensation Program's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Montana University System - Workers' Compensation Program, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2005. We noted no transactions entered into by the Program during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimated claims liability.

Management's estimate of the claims estimate is based on an actuarial calculation performed by Milliman, Inc., the Program's consulting actuaries. We evaluated the key factors and assumptions used to develop the estimated claims liability in determining that it is reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Organization, either individually or in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultant involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Committee  
Montana University System - Workers' Compensation Program  
September 1, 2005

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**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Program's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Committee and management of Montana University System - Workers' Compensation Program, and should not be used for any other purpose.

***Junkermier, Clark, Campanella, Stevens, PC***

Helena, Montana